

Message Text

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TO AMEMBASSY CAIRO IMMEDIATE

C O N F I D E N T I A L STATE 139397

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E.O. 11652: GDS

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SUBJECT: EMERGENCY ASSISTANCE TO EGYPT

REF: (A) STATE 133630; (B) CAIRO 5796; (C) CAIRO 5784;
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1. GOE'S EVIDENT DETERMINATION TO SEPARATE MOST OR ALL NEW ARAB AID FROM AMOUNTS RAISED THROUGH U.S. INITIATIVE FROM NON-ARAB SOURCES AND TO INCLUDE IN 'REQUIREMENTS' FIGURE LARGE AMOUNTS OF SHORT-TERM DEBT REFINANCING REQUIRES US TO REASSESS OUR ORIGINAL CONCEPT. EMBASSY'S COMMENTS ARE INVITED ON THE FOLLOWING TENTATIVE ANALYSIS.

2. FROM THE OUTSET IT HAS BEEN CLEAR THAT:

A. NEITHER GOE NOR USG WERE INTERESTED IN CHANGING EGYPT'S BASIC RELIANCE ON ARAB ECONOMIC AID, WHICH EXCEEDED
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US DOLS. 1 BILLION IN 1974 AND WAS PROJECTED BY EGYPTIANS

TO RISE IN 1975, REGARDLESS OF EMERGENCY INTERNATIONAL AID EFFORT. NOR WOULD USG WANT TO CONTINUE MAJOR MASSIVE IMPORT-FINANCING AID IN CY 1976 AND BEYOND OR BE ABLE TO FULFILL EXPECTATIONS OF SUCH ROLE EVEN IF DESIRABLE.

B. NEITHER USG NOR GOE WAS INTERESTED IN ESTABLISHING AN INTERNATIONAL AID CONSORTIUM THAT MIGHT SUBJECT GOE FISCAL AND FINANCIAL POLICIES TO RIGOROUS BELT-TIGHTENING DEMANDS WHICH WOULD SOUR OUR POLITICAL RELATIONSHIP AND SHAKE EGYPTIAN POLITICAL STABILITY.

C. GOE WAS AMBIGUOUS IN DESCRIBING ITS OWN STRATEGY, PARTICULARLY AS TO AMOUNTS OF SHORT-TERM FOREIGN BANK DEBT IT SOUGHT TO REFINANCE AND AMOUNTS OF SUCH REFINANCING IT WOULD SEEK FROM ARAB GOVERNMENTS. THIS FACTOR, COUPLED WITH GOE'S UNWILLINGNESS TO STATE WHAT REDUCTION IN ITS IMPORT PLANS COULD REASONABLY BE MADE, PRESUMABLY ACCOUNTS FOR MOST OF DISCREPANCY BETWEEN GOE AND USG ESTIMATES OF "REQUIREMENT" FOR EMERGENCY FINANCIAL RELIEF IN BALANCE OF CY 1975.

D. UNCRITICAL ACCEPTANCE OF GOE'S MAXIMUM REQUEST FOR FINANCIAL AID WOULD UNDERCUT IMF AND IBRD EFFORTS TO INDUCE GOE TO START PUTTING ITS HOUSE IN ORDER, THUS ASSURING THAT GOE WOULD BE BACK WITH STILL HIGHER DEMAND FOR AID FROM U.S. AND OTHERS NEXT YEAR AND BEYOND.

3. THESE CONSIDERATIONS AND LIMITATIONS CAUSED US TO ADVISE GOE THAT WE BELIEVED ABOUT DOLS. 900 MILLION IN ADDITIONAL BALANCE OF PAYMENTS FINANCING ON CONCESSIONAL TERMS APPEARED TO BE JUSTIFIABLE REQUIREMENT AND COULD BE RAISED QUICKLY BY JOINT EFFORTS WE WOULD INITIATE FROM USG, SAUDI ARABIA, IRAN, KUWAIT, JAPAN, GERMANY AND OTHERS. WE PROCEEDED ON THIS BASIS WITHOUT GOE OBJECTION TO APPROACH CONTRIBUTORS AND PLAN U.S. PARTICIPATION.

4. AFTER HAVING MADE THIS CASE IN DETAIL TO ALL ABOVE MENTIONED COUNTRIES EXCEPT KUWAIT; WE WERE SURPRISED BY GOE CONTENTION AT SALZBURG AND SUBSEQUENTLY THAT REQUIREMENT WAS AT LEAST DOLS. 1.5 BILLION. NO STAT-CONFIDENTIAL

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ISTICAL RECONCILIATION OF DIFFERENT AMOUNTS WAS ATTEMPTED THERE, BUT OUR INITIAL GUESS WAS THAT LARGER FIGURE INCLUDED THE 200 MILLION EGYPTIAN POUNDS OF ARAB CASH GRANTS WHICH HAD ALL ALONG BEEN PROJECTED TO BE RAISED IN JUNE, ACCORDING TO GOE FOREIGN EXCHANGE BUDGET, AN AMOUNT NETTED OUT OF USG ESTIMATE. SAUDI COMMITMENT OF DOLS. 600 MILLION AND KUWAITI DISCUSSION OF LARGE AMOUNT TENDS TO SUPPORT THIS ASSUMPTION. IF THIS WERE THE EXPLANATION,

THERE WAS GOOD REASON FOR GOE TO USE THE LARGER REQUIREMENTS STATEMENT IN ITS APPROACHES TO ARAB GOVERNMENTS WHILE PRESENTING APPROXIMATELY DOLS. 1 BILLION AS REQUIREMENT FOR EXTRAORDINARY AID IN GOE AND USG APPROACHES TO NON-ARAB COUNTRIES.

5. PRESUMABLY THIS QUESTION WILL BE CLARIFIED BY ABU ISMAIL'S RESPONSE TO DRAFT STATEMENT, PER REFS A AND B. HIS CLARIFICATION IS LIKELY TO CONFRONT US WITH IMMEDIATE DECISION ON WHETHER TO ACCEPT GOE FIGURE AS TARGET OF INTERNATIONAL GROUP AND, IF SO, WHETHER PART OR ALL OF NEW ARAB NON-PROJECT AID IS TO BE APPLIED AGAINST THIS TARGET. BECAUSE OF URGENCY OF RESPONDING TO JAPANESE INQUIRIES AND PREPARING USG PRESENTATION TO CONGRESS, EMBASSY WILL NEED TO DISCUSS THESE OPTIONS WITH ABU ISMAIL. AMBASSADOR IS REQUESTED TO WITHHOLD COMMITMENT UNTIL WE HAVE RECEIVED EMBASSY'S RESPONSE TO THIS TELEGRAM AND HAVE SENT APPROPRIATE INSTRUCTIONS.

6. FOLLOWING ARE OUR TENTATIVE VIEWS ON THIS CHOICE, SUBJECT TO EMBASSY COMMENT AND AB0 ISMAIL'S PROPOSALS: THERE IS GREAT ADVANTAGE IN U.S. CONGRESSIONAL TERMS OF A TOTAL PACKAGE IN WHICH ARAB AID REMAINS PREDOMINANT AND USG SHARE IS PROPORTIONATELY SMALLER THAN OUR INITIAL PLAN. SUCH PACKAGE ALSO CREATES LESS TROUBLESOME PRECEDENTS FOR USG ROLE IN CY 1976 EFFORTS TO ASSIST EGYPT. LARGE ARAB CONTRIBUTIONS CLEARLY WOULD MATCH LARGE EGYPTIAN OUTLAYS TO PAY OFF COMMERCIAL DEBT, THUS SEPARATING U.S. AND OTHER TIED AID FROM IMPLICATION THAT IT IS PLAYING THIS QUESTIONABLE ROLE. ON NEGATIVE SIDE, SUCH LARGE TARGET ENDORSED BY USG AND OTHERS MIGHT APPEAR TO IMF AND IBRD AS UNDERCUTTING THEIR OBJECTIVES, POSSIBLY WEAKENING GOE RESOLVE TO CARRY OUT SALIM-MCNAMARA LETTER
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COMMITMENT. ON BALANCE, TAKING INTO ACCOUNT BASIC POLITICAL PURPOSES, WE INCLINE TOWARD ACCEPTING TARGET OF UP TO DOLS. 1.5 BILLION PROVIDED EXPLANATION IS LARGELY THAT ASSUMED IN PARA 5 ABOVE AND PROVIDED ALL NEW ARAB NON-PROJECT AID IS COUNTED AGAINST IT. WE DO NOT REPEAT NOT FAVOR A SEPARATE TARGET AND FUND-RAISING EFFORT LIMITED TO NON-ARAB CONTRIBUTORS. KISSINGER

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